

# 2011 Semi-Annual Management Report of Fund Performance

for the period ended June 30, 2011

VentureLink Innovation Fund Inc.



**VENTURELINK**  
FUNDS

This semi-annual management report of fund performance contains financial highlights but does not contain the complete semi-annual or annual financial statements of the investment fund.

You can get a copy of the semi-annual or annual financial statements at your request, and at no cost, by calling 1-800-253-1043, by writing to us at VL Advisors Inc., 3 Church Street, Suite 602, Toronto, ON M5E 1M2 or by visiting our website at [www.venturelinkfunds.com](http://www.venturelinkfunds.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or semi-annual portfolio disclosure.

# VENTURELINK INNOVATION FUND INC.

*Management Report of Fund Performance for the period ended June 30, 2011*

## FUND AMALGAMATION

At Annual and Special meetings of Shareholders on July 22, 2010, the shareholders of the VentureLink Financial Services Innovation Fund Inc., the VentureLink Brighter Future Fund Inc., the VentureLink Diversified Income Fund Inc. and the VentureLink Balanced Fund Inc., approved the proposed amalgamation of the four funds to form VentureLink Innovation Fund Inc. The amalgamation was completed September 10, 2010. The Statement of Operations, Changes in Net Assets and Cash Flows for the comparative period are those of the VentureLink Financial Services Innovation Fund Inc.

## RESULTS OF OPERATIONS (in \$000's except share numbers)

The net asset value of the Fund as at June 30, 2011 was \$ 172,838. There were 3,404,075 Class A Shares, Series I, 1,772,504 Class A Shares, Series II, 9,013,956 Class A Shares, Series III, 3,918,299 Class A Shares, Series IV, and 142,211 Class A Shares, Series VI outstanding.

### Revenue

The Fund had revenue for the period of \$1,962 compared to \$1,388 in 2010, an increase of approximately 41%. This increase was related to the increase in interest bearing investments of the fund following the merger in September 2010.

### Expenses

Operating expenses for the period increased to \$6,477 from \$3,743 in 2010, an increase of 73%. This increase is related to the increased average net asset value of the fund in 2011 versus 2010.

### Class A Shares

Net redemptions of Class A Shares during the period were \$33,636

### New investments

The Fund made a total of \$2,950 follow-on venture investments during the period:

- Clubb Finance Corp., \$2,050 follow-on, total investment \$9,650
- Showcare Event Solutions Inc., \$400 follow-on, total investment \$2,400
- Sidense Corp., \$500 follow-on, total investment \$2,375

### Realizations

The Fund realized proceeds totaling \$4,155 from the sale of securities of the following companies for a realized gain of \$949:

- Enerworks Inc., cost \$78
- Kensington Capital Partners Ltd., cost \$29
- Lexfund Inc., cost \$1,575
- NexJ Systems Inc., cost \$1,524
- Streamlogics Inc., cost nil

The portfolio holdings continue to reflect the Fund's objective of investing in a diversified portfolio mezzanine debt and equity investments.

### Linked notes

The Fund realized proceeds equal to \$ 19,663 from the sale of the following three linked notes for a realized gain of \$ 8,170:

- S&P/TSX Capped Income Trust Index Linked Note, cost \$5,493
- Toronto-Dominion Bank S&P Depository Index Linked Note, cost \$5,500
- Toronto-Dominion Bank S&P/TSE Index Linked Note, cost \$500

### Fund performance

Fund performance reflected a decrease in net asset value per share of approximately 3% during the period. This decrease is primarily due to expenses greater than investment income and to unrealized depreciation of the venture portfolio during the period.

# VENTURELINK INNOVATION FUND INC.

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## RECENT DEVELOPMENTS

### **International Financial Reporting Standards**

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for all publicly accountable profit-oriented enterprises for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. On January 12, 2011, the AcSB confirmed deferral of the IFRS changeover date for investment funds. Based on the AcSB decision IFRS will become effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013 instead of January 1, 2011.

Based on the Manager's current evaluation of the differences between IFRS and Canadian GAAP, the Manager currently does not expect any impact to net asset value or net asset value per share, at this time, as a result of the transition to IFRS, and expects that the main impact will be on the financial statements, where additional disclosures or changes in presentation will be required. Further updates on the progress in the implementation of the IFRS transition plan and any changes to reporting will be provided during the implementation period leading up to the transition date.

### **Ontario Tax Benefits**

On September 30, 2005, the Ontario government announced that it is planning to remove the provincial tax credit for investors by the end of the 2011 RSP season. On March 23, 2006 a number of measures relating to the transition of the labour sponsored fund program were announced in the 2006 Ontario budget. These measures received Royal Assent on May 18, 2006 and are now law. In December of 2007, the Ontario Government announced that it intended to extend the tax credit by one year to the end of the 2012 RSP season and that it would increase the annual contribution eligible for the provincial credit from \$5,000 to \$7,500. These measures received Royal Assent in May of 2008 and are now law.

## RELATED PARTY TRANSACTIONS

### **Manager**

The Manager and Investment Advisor and Sponsor are deemed to be related parties and earned \$3,345 from the Fund. This amount represents fees for management, investment advisor and sponsor services. In addition, the Fund accrued \$104 of performance fees during the period and paid out performance fees of \$115 resulting in an ending accrual of \$3,695. Accrued performance fees will be payable to the Manager and Investment Advisor in the future if certain criteria are achieved.

### **Registrar and Transfer Agent**

CI Investments Inc. is the registrar and transfer agent for the Fund.

# VENTURELINK INNOVATION FUND INC.

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## FINANCIAL HIGHLIGHTS

The Fund's Net Assets per Share tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for each of the past six periods.

The Ratios & Supplemental Data shown below are based on net asset value.

### THE FUND'S NET ASSETS PER SHARE (\$)<sup>(1)(2)</sup>

<b>CLASS A, SERIES I SHARES</b>	Jun. 30 2011	Dec. 31 2010	Dec. 31 2009*	Dec. 31 2008*	Dec. 31 2007*	Dec. 31 2006*
Net assets, beginning of period <sup>(3)(9)</sup>	9.91	10.19	8.92	11.49	11.91	10.40
<b>Increase (decrease) from operations:</b>						
Total revenue	0.28	0.31	0.26	0.49	0.80	1.10
Total expenses	(0.28)	(0.46)	(0.57)	(0.68)	(0.73)	(1.01)
Realized gains (losses) for the period	0.36	0.25	(0.04)	(0.22)	0.67	0.57
Unrealized gains (losses) for the period	(0.60)	(0.26)	1.62	(2.15)	(1.16)	0.85
Total increase (decrease) from operations <sup>(3)</sup>	(0.24)	(0.16)	1.27	(2.56)	(0.42)	1.51
<b>Change in Net Assets due to amalgamation</b>	–	(0.09)	–	–	–	–
<b>Distributions:</b>						
From income (excluding dividends)	–	–	–	–	–	–
From dividends	–	–	–	–	–	–
From capital gains	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–
Total annual distributions <sup>(3)(4)</sup>	–	–	–	–	–	–
<b>Net assets at end of period shown<sup>(3)(9)</sup></b>	<b>9.58</b>	<b>9.91</b>	<b>10.19</b>	<b>8.92</b>	<b>11.49</b>	<b>11.92</b>
<b>Ratios and Supplemental Data</b>						
Total net asset value (\$000's)	32,584	57,608	55,184	49,869	65,447	66,436
Number of shares outstanding (000's)	3,404	5,831	5,369	5,453	5,520	5,574
Management fee (%) <sup>(5)</sup>	1.25	1.25	1.25	1.25	1.25	1.25
Investment advisor fee (%) <sup>(5)</sup>	2.00	2.00	2.00	2.00	2.00	2.00
Management expense ratio (%) <sup>(6)</sup>	5.30	5.49	5.93	6.12	5.90	8.74
Portfolio turnover rate (%) <sup>(7)</sup>	8.97	15.53	6.61	5.21	27.83	17.63
Trading expense ratio (%) <sup>(8)</sup>	–	–	–	–	0.01	–
Net asset value per share (\$) <sup>(9)</sup>	9.57	9.88	10.28	9.14	11.85	12.41

\* Figures provided are those of VentureLink Financial Services Innovation Fund Inc.

# VENTURELINK INNOVATION FUND INC.

*Management Report of Fund Performance for the period ended June 30, 2011*

THE FUND'S NET ASSETS PER SHARE (\$) <sup>(1)(2)</sup> cont'd

<b>CLASS A, SERIES II SHARES</b>	Jun. 30 2011	Dec. 31 2010	Dec. 31 2009*	Dec. 31 2008*	Dec. 31 2007*	Dec. 31 2006*
Net assets, beginning of period <sup>(3)(9)</sup>	9.90	10.15	8.94	11.56	12.03	10.60
<b>Increase (decrease) from operations:</b>						
Total revenue	0.26	0.01	0.26	0.48	0.79	1.09
Total expenses	(0.30)	(0.26)	(0.62)	(0.73)	(0.79)	(1.07)
Realized gains (losses) for the period	0.37	0.20	(0.04)	(0.22)	0.66	0.56
Unrealized gains (losses) for the period	(0.63)	(0.07)	1.61	(2.14)	(1.15)	0.85
Total increase (decrease) from operations <sup>(3)</sup>	(0.30)	(0.12)	1.21	(2.61)	(0.49)	1.43
<b>Change in Net Assets due to amalgamation</b>	–	(0.02)	–	–	–	–
<b>Distributions:</b>						
From income (excluding dividends)	–	–	–	–	–	–
From dividends	–	–	–	–	–	–
From capital gains	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–
Total annual distributions <sup>(3)(4)</sup>	–	–	–	–	–	–
<b>Net assets at end of period shown<sup>(3)(9)</sup></b>	<b>9.53</b>	<b>9.90</b>	<b>10.15</b>	<b>8.94</b>	<b>11.56</b>	<b>12.05</b>
<b>Ratios and Supplemental Data</b>						
Total net asset value (\$000's)	16,872	28,951	7,339	6,627	8,731	9,008
Number of shares outstanding (000's)	1,773	2,932	720	730	742	748
Management fee (%) <sup>(5)</sup>	1.25	1.25	1.25	1.25	1.25	1.25
Investment advisor fee (%) <sup>(5)</sup>	2.00	2.00	2.00	2.00	2.00	2.00
Management expense ratio (%) <sup>(6)</sup>	5.86	6.05	6.45	6.64	6.43	9.26
Portfolio turnover rate (%) <sup>(7)</sup>	8.97	15.53	6.61	5.21	27.83	17.63
Trading expense ratio (%) <sup>(8)</sup>	–	–	–	–	0.01	–
Net asset value per share (\$) <sup>(9)</sup>	9.52	9.87	10.20	9.07	11.77	12.34

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# VENTURELINK INNOVATION FUND INC.

*Management Report of Fund Performance for the period ended June 30, 2011*

THE FUND'S NET ASSETS PER SHARE (\$) <sup>(1)(2)</sup> cont'd

<b>CLASS A, SERIES III SHARES</b>	Jun. 30 2011	Dec. 31 2010	Dec. 31 2009*	Dec. 31 2008*	Dec. 31 2007*	Dec. 31 2006*
Net assets, beginning of period <sup>(3)(9)</sup>	9.91	9.63	8.60	11.20	11.78	10.54
<b>Increase (decrease) from operations:</b>						
Total revenue	0.01	0.22	0.24	0.45	0.75	1.05
Total expenses	(0.35)	(0.47)	(0.69)	(0.81)	(0.89)	(1.15)
Realized gains (losses) for the period	0.52	0.24	(0.04)	(0.22)	0.63	0.54
Unrealized gains (losses) for the period	(0.65)	(0.17)	1.62	(2.05)	(1.09)	0.81
Total increase (decrease) from operations <sup>(3)</sup>	(0.47)	(0.18)	1.13	(2.63)	(0.60)	1.25
<b>Change in Net Assets due to amalgamation</b>	–	0.55	–	–	–	–
<b>Distributions:</b>						
From income (excluding dividends)	–	–	–	–	–	–
From dividends	–	–	–	–	–	–
From capital gains	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–
Total annual distributions <sup>(3)(4)</sup>	–	–	–	–	–	–
<b>Net assets at end of period shown<sup>(3)(9)</sup></b>	<b>9.44</b>	<b>9.91</b>	<b>9.63</b>	<b>8.60</b>	<b>11.20</b>	<b>11.80</b>
<b>Ratios and Supplemental Data</b>						
Total net asset value (\$000's)	84,998	87,583	41,945	30,016	32,495	27,714
Number of shares outstanding (000's)	9,014	8,864	4,354	3,491	2,902	2,350
Management fee (%) <sup>(5)</sup>	1.25	1.25	1.25	1.25	1.25	1.25
Investment advisor fee (%) <sup>(5)</sup>	2.00	2.00	2.00	2.00	2.00	2.00
Management expense ratio (%) <sup>(6)</sup>	6.95	7.15	7.57	7.77	7.55	10.37
Portfolio turnover rate (%) <sup>(7)</sup>	8.97	15.53	6.61	5.21	27.83	17.63
Trading expense ratio (%) <sup>(8)</sup>	–	–	–	–	0.01	–
Net asset value per share (\$) <sup>(9)</sup>	9.43	9.88	9.63	8.60	11.20	11.80

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# VENTURELINK INNOVATION FUND INC.

*Management Report of Fund Performance for the period ended June 30, 2011*

THE FUND'S NET ASSETS PER SHARE (\$) <sup>(1)(2)</sup> cont'd

<b>CLASS A, SERIES IV SHARES</b>	Jun. 30 2011	Dec. 31 2010	Dec. 31 2009*	Dec. 31 2008*	Dec. 31 2007*	Dec. 31 2006*
Net assets, beginning of period <sup>(3)(9)</sup>	9.92	9.64	8.61	11.21	11.80	10.56
<b>Increase (decrease) from operations:</b>						
Total revenue	0.02	0.15	0.24	0.45	0.75	1.05
Total expenses	(0.35)	(0.40)	(0.69)	(0.81)	(0.89)	(1.15)
Realized gains (losses) for the period	0.52	0.23	(0.04)	(0.22)	0.63	0.54
Unrealized gains (losses) for the period	(0.67)	(0.12)	1.67	(2.05)	(1.10)	0.81
Total increase (decrease) from operations <sup>(3)</sup>	0.48	(0.14)	1.18	(2.63)	(0.61)	1.25
<b>Change in Net Assets due to amalgamation</b>	–	0.54	–	–	–	–
<b>Distributions:</b>						
From income (excluding dividends)	–	–	–	–	–	–
From dividends	–	–	–	–	–	–
From capital gains	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–
Total annual distributions <sup>(3)(4)</sup>	–	–	–	–	–	–
<b>Net assets at end of period shown<sup>(3)(9)</sup></b>	<b>9.43</b>	<b>9.92</b>	<b>9.64</b>	<b>8.61</b>	<b>11.21</b>	<b>11.81</b>
<b>Ratios and Supplemental Data</b>						
Total net asset value (\$000's)	36,924	38,449	13,694	9,288	9,890	7,995
Number of shares outstanding (000's)	3,918	3,886	1,421	1,079	882	677
Management fee (%) <sup>(5)</sup>	1.25	1.25	1.25	1.25	1.25	1.25
Investment advisor fee (%) <sup>(5)</sup>	2.00	2.00	2.00	2.00	2.00	2.00
Management expense ratio (%) <sup>(6)</sup>	7.35	7.23	7.59	7.79	7.58	10.40
Portfolio turnover rate (%) <sup>(7)</sup>	8.97	15.53	6.61	5.21	27.83	17.63
Trading expense ratio (%) <sup>(8)</sup>	–	–	–	–	0.01	–
Net asset value per share (\$) <sup>(9)</sup>	9.42	9.89	9.64	8.61	11.21	11.81

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# VENTURELINK INNOVATION FUND INC.

*Management Report of Fund Performance for the period ended June 30, 2011*

THE FUND'S NET ASSETS PER SHARE (\$) <sup>(1)(2)</sup> cont'd

	Jun. 30 2011	Dec. 31 2010	Dec. 31 2009*	Dec. 31 2008*
<b>CLASS A, SERIES VI SHARES</b>				
Net assets, beginning of period <sup>(3)(9)</sup>	9.92	8.89	7.91	10.00
<b>Increase (decrease) from operations:</b>				
Total revenue	(0.01)	(0.02)	0.20	0.36
Total expenses	(0.34)	(0.26)	(0.62)	(0.66)
Realized gains (losses) for the period	0.53	0.19	(0.04)	(0.21)
Unrealized gains (losses) for the period	(0.65)	(0.01)	1.88	(1.89)
Total increase (decrease) from operations <sup>(3)</sup>	(0.47)	(0.10)	1.42	(2.40)
<b>Change in Net Assets due to amalgamation</b>	–	1.25	–	–
<b>Distributions:</b>				
From income (excluding dividends)	–	–	–	–
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	–	–	–	–
Total annual distributions <sup>(3)(4)</sup>	–	–	–	–
<b>Net assets at end of period shown<sup>(3)(9)</sup></b>	<b>9.45</b>	<b>9.92</b>	<b>8.89</b>	<b>7.91</b>
<b>Ratios and Supplemental Data</b>				
Total net asset value (\$000's)	1,344	1,320	108	31
Number of shares outstanding (000's)	142	134	12	4
Management fee (%) <sup>(5)</sup>	1.25	1.25	1.25	1.25
Investment advisor fee (%) <sup>(5)</sup>	2.00	2.00	2.00	2.00
Management expense ratio (%) <sup>(6)</sup>	6.71	6.91	7.22	1.40
Portfolio turnover rate (%) <sup>(7)</sup>	8.97	15.53	6.61	5.21
Trading expense ratio (%) <sup>(8)</sup>	–	–	–	–
Net asset value per share (\$) <sup>(9)</sup>	9.45	9.89	8.89	7.91

\* Figures provided are those of VentureLink Financial Services Innovation Fund Inc.

# VENTURELINK INNOVATION FUND INC.

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## FINANCIAL HIGHLIGHTS cont'd

- (1) This information is derived from the Fund's semi-annual and annual financial statements. The net assets per share presented in the financial statements differs from the net asset value calculated for Fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.
- (2) The following classes of shares of the Fund commenced operations:

Class A, Series I shares	September 10, 2010
Class A, Series II shares	September 10, 2010
Class A, Series III shares	September 10, 2010
Class A, Series IV shares	September 10, 2010
Class A, Series VI shares	September 10, 2010
- (3) Net assets per share and dividends per share are based on the actual number of shares outstanding for the relevant class on the relevant date. The increase (decrease) in net assets from operations per share is based on the weighted average number of shares outstanding for the relevant class over the financial period.
- (4) Distributions are automatically reinvested in additional shares of the Fund, unless the shareholder withdraws from the automatic reinvestment plan by providing written notice to the Manager, or unless the Fund elects to pay them.
- (5) The Fund has entered into various agreements including management, investment advisory and administration agreements. The annualized fees are as shown.
- (6) Management expense ratio is calculated based on expenses charged directly to the Fund plus, if applicable, expenses of the underlying funds, calculated on a weighted average basis based on the percentage weighting of each underlying fund and is expressed as an annualized percentage of average daily net asset value for the period.
- (7) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the fiscal period. The higher a Fund's portfolio turnover rate in a period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a higher turnover rate and the performance of a Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year and the value of any securities acquired as a result of merger, by the average of the monthly fair value of investments during the period.
- (8) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value of the Fund during the period.
- (9) Section 14.2 of National Instrument 81-106 requires the net assets of an investment fund to be calculated using the fair value of the fund's assets and liabilities. Canadian GAAP requires a different valuation method for calculating net assets for financial reporting purposes. For the purpose of processing shareholder transactions, net assets are calculated based on the closing market price (referred to as "Net Asset Value"), while for financial statement purposes net assets are calculated based on bid/ask price (referred to as "Net Assets").

# VENTURELINK INNOVATION FUND INC.

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## SUMMARY OF INVESTMENT PORTFOLIO (as at June 30, 2011)

<b>Industry Sector</b>	<b>Number of companies</b>	<b>Cost (in \$000's)</b>	<b>Fair Value (in \$000's)</b>	<b>% of Cost</b>	<b>% of FV</b>
<b>Sector</b>					
Financial Services	14	58,958	45,618	53.3	48.2
Energy and environmental	7	13,537	18,342	12.2	19.4
Biotechnology	2	4,666	2,214	4.2	2.3
Information Technology and Communications	7	28,020	24,017	25.3	25.3
Other services	3	5,522	4,507	5.0	4.8
	33	110,703	94,698	100.0	100.0

<b>Stage of Development</b>	<b>Number of companies</b>	<b>Cost (in \$000's)</b>	<b>Fair Value (in \$000's)</b>	<b>% of Cost</b>	<b>% of FV</b>
<b>Investment Stage</b>					
Early	11	38,329	31,231	34.6	33.0
Later	13	51,652	48,327	46.7	51.0
Public	9	20,722	15,140	18.7	16.0
	33	110,703	94,698	100.0	100.0

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund and updates will be available on a semi-annual basis.

### A NOTE ON FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements about the Fund, its future performance, strategies or prospects, and possible future Fund action. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective," and similar expressions are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance. Forward-looking statements involve inherent risks and uncertainties, both about the Fund and general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-

looking statement made by the Fund. These factors include, but are not limited to, general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchanges rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgments, legal proceedings and catastrophic events.

The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility.